

Implementing Organizations

In acknowledgement of the foregoing Agreement, the following representative of the implementing organization has subscribed his name:

Office of Prime Minister

BY :  \_\_\_\_\_

NAME : Dr. Safwat El Nahas

TITLE: Secretary General of the  
Council of Ministers

Implementing Organizations

In acknowledgement of the foregoing Agreement, the following representative of the implementing organization has subscribed his name:

Ministry of Finance

BY :

Medhat Hassanein

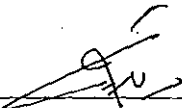
NAME : Dr. Mohamed Medhat Hassanein

TITLE: Minister of Finance

Implementing Organizations

In acknowledgement of the foregoing Agreement, the following representative of the implementing organization has subscribed his name:

Ministry of Justice

BY :  \_\_\_\_\_

NAME : Counselor Farouk Seif El Nasr

TITLE: Minister of Justice

Implementing Organizations

In acknowledgement of the foregoing Agreement, the following representative of the implementing organization has subscribed his name:

Alexandria Governorate

BY : M. A. Saleh

NAME : General Mohamed Abdel Salam Al-Mahgoub

TITLE: Governor of Alexandria

## ANNEX 1

### Amplified Description

#### I. Introduction

This Annex 1 to the Financial Sector Modernization Program (FSMP) describes the activities to be undertaken and the results to be achieved with the funds obligated under this Agreement. Nothing in this Annex 1 shall be construed as amending any of the definitions or terms of this Agreement. This Annex 1 may be amended by authorized representatives of the Parties through Implementation Letters (ILs) as provided under Article A, Section A.2 of the Standard Provisions (Annex 2) to the Agreement without formal amendment of the Agreement, provided that the definition of the Strategic Objective and Results as set forth in Article 2 of this Agreement are not altered thereby.

#### II. Background

FSMP will consist of three project components: 1) The Financial Services Project (FSP); 2) the Competitive Environment for Investment (CEI) Project; and eventually 3) the Enterprise Fund for Small and Medium Sized Businesses, that will be developed in cooperation with GOE counterparts.

FSMP will provide technical assistance, training, and equipment to assist the Government of Egypt (GOE):

- To strengthen financial markets with a focus on banks through the development of financial services;
- To develop and implement a legal and regulatory framework for business operation and investment, including the modernization of economic/commercial laws;
- To formulate and implement monetary policy and create a functioning and efficient government securities market; and
- To develop an Enterprise Fund.

### III. Results to be Achieved

The Economic Growth Directorate's Strategic Objective (SO) is the "*Environment for Trade and Investment Strengthened*" (SO16). There are three intermediate results (IRs) under this strategic objective. The FSMP program will directly and indirectly contribute to all these:

- a) IR 16.1 Policy Framework for Trade and Investment Improved;
- b) IR 16.2 Private Sector Competitiveness Increased; and
- c) IR 16.3 Opportunities for Business Growth Enhanced.

The purpose of the Financial Sector Modernization Program is to strengthen the efficiency of Egypt's financial system by:

- lowering the risks of loss to banks;
- lowering the "intermediation costs" of new mortgages and non-mortgage credit instruments;
- clarifying and strengthening the economic law-regime, increasing government efficiency regarding business, and boosting legal education and training;
- working with the GOE to promote investments and to support strengthening the consistency and predictability of enforcement;
- reducing the transaction costs of doing business in Egypt and hence improving private sector competitiveness; and
- supporting the GOE in achieving improved efficiency for its fiscal expenditures.

### IV. Activities

#### Financial Services Component:

##### A. Development of Mortgage Finance Channels.

This activity will help to establish: 1) a sound legal framework for real estate loans, with reduced costs and administrative burden; 2) good credit underwriting procedures; 3) access to long-term finance to fund real estate lending; 4) sound real estate lending operations of financial institutions; and 5) controls to prevent fraudulent and abusive practices.

This activity will provide technical assistance and training to several key government counterparts, so that they can implement appropriately their responsibilities for standards and licensing under the Real Estate Finance Law. It will also assist the development of a secondary mortgage market.

B. Improved Legal and Institutional Process for Collateralized Financing.

This activity will consist of two primary components - (a) reform and modernization of the system for registration of real property in urban areas and (b) introducing workable new laws and streamlined procedures for recording liens and repossessing collateral. It will support the Ministry of Justice (MOJ) plan to promote simple, low cost registration of urban properties and to reduce the delays and costs in settling creditor-debtor disputes.

C. Credit Information System.

This activity will assist the establishment of a credit bureau which will provide reliable information on the credit histories of Egyptians. The Central Bank of Egypt will be the regulatory authority for the credit bureau and establish the regulations governing the operations of the credit bureau.

D. Innovations in Financial Instruments.

This activity will seek to broaden the range of financial instruments -- and to improve the efficiency of existing instruments in Egypt -- such as corporate and government bonds, factoring of receivables, and leasing.

**Competitive Environment for Investment Component:**

A. Establishing a Law Commission.

USAID will assist in the Establishment of a unified, multi disciplinary economic/commercial law commission empowered to initiate, not merely comment on, legislation. The commission will function under the leadership of the Office of the Prime Minister. Task forces comprised of qualified specialists will be formed by the commission to coordinate the drafting of all commercial laws. These specialists may include economists, financial experts, legal drafting experts, public finance

experts, trade experts, business people, and other specialists depending on the law being drafted.

B. Legal Training.

USAID will assist the GOE develop a skilled cadre of lawyers to resolve economic multinational disputes resulting from globalization and Foreign Direct Investment. Short and long term training will be provided. USAID expects to work with faculty from the University of Cairo Law Faculty and other law schools as the activity progresses, to assist in developing new curricula and programs to improve the capacity of lawyers in Egypt.

C. Establishing a "Single Window" Approach.

USAID will assist the Governorate of Alexandria in its efforts to establish a site composed of an inter-ministerial team selected by the GOE and tasked with responding to the multiple requirements of investors. TA and training will be provided to the inter-ministerial team tasked with serving the investor through a "single window" to establish or incorporate a business as the start of a customer centered approach to delivering government services in the business area and as a way of reducing the bureaucratic burden.

D. Supporting the MOF in its Efforts to Execute a Modern Budget System.

This activity will assist the MOF to strengthen its capabilities in preparing, executing and monitoring a more transparent and efficient budget system.

E. Activities Initiated under Partnership for Competitiveness.

Other activities will be undertaken to strengthen financial markets. These include assistance to the GOE:

- To develop the capability of the Central Bank of Egypt (CBE) to formulate and implement monetary policy, and to manage the floating exchange rate system; and

- To the Ministry of Finance (MOF) in designing and implementing the necessary actions required to create a functioning and efficient government securities market.

## V. Performance Monitoring

The implementation of FSMP will contribute, in part, to the achievement of the results described in Section III of this Annex 1. These results will be measured using the following indicators:

- 1) the Global Competitiveness Index (an index of economic competitiveness published by the World Economic Forum);
- 2) the percentage of non-performing loans on the books of Egypt's banks;
- 3) the interest rates on mortgage loans for apartments;
- 4) the time and expense of foreclosure on collateral when borrowers default on their repayment obligations;
- 5) numbers of households and enterprises with access to formal credit;
- 6) selected laws and decrees passed;
- 7) selected laws and decrees implemented, such as a bankruptcy law;
- 8) number of lawyers to administer new laws trained;
- 9) number of steps or time required for procedures to obtain licenses and incorporate businesses; and
- 10) number of MOF staff trained (to improve budget system).

Two evaluations will be conducted for each component: a mid-term evaluation (two years after the start-up of activities) and a final evaluation at the end of the project.

## VI. Roles and Responsibilities of the Parties

### A. A.R.E.

The Ministry of Finance and the Ministry of Justice will serve as implementing agencies for the FSP Activity. The Ministry of Finance will also serve as the overall coordinator for FSP activities.

The Governorate of Alexandria, MOJ and MOF will serve as the implementing agencies for the CEI component. The office of His

Excellency the Prime Minister will serve as the overall coordinator for CEI activities.

Other agencies/beneficiaries will be designated as A.R.E. implementing organizations for relevant components of the project, through Implementation Letters (ILs) between USAID and ICS/MFA.

#### **B. USAID**

USAID's Economic Growth Directorate will monitor the implementation of FSMP on behalf of the United States Government.

USAID is responsible for executing implementing instruments - contracts, cooperative agreements and grants to undertake approved activities under FSMP needed to achieve the results set forth in Section III, above, and for monitoring and evaluating the achievement of these results. USAID will enter into such implementing instruments only after consultation with the relevant A.R.E. implementing organization for the activity.

#### **VII. Funding**

The Illustrative Financial Plan for FSMP is set forth in the attached table. Changes may be made to the financial plan by representatives of the Parties without formal amendment of the Agreement, provided that such changes do not cause USAID's contribution to exceed the amount specified in Section 3.1 of the Agreement.

## Attachment 1.1

Financial Sector Modernization Program  
 Illustrative Financial Plan  
 USAID Contribution (\$000)

Component Name	This Obligation	Planned Future Obligations	Total Planned Life of Project Funding
<i>Financial Services Project (FSP)</i>			
1. TA/Commodities/Training	18,600	15,000	33,600
2. Project Management	400	500	900
3. Audit and Evaluation	0	500	500
<i>Sub-total</i>	19,000	16,000	35,000
<i>Competitive Environment for Investment (CEI)</i>			
1. TA/Commodities/Training	26,900	16,500	43,400
2. Project Management	750	1,000	1,750
3. Activities initiated under PFC	0	12,000	12,000
4. Audit and Evaluation	100	150	250
<i>Sub-total</i>	27,750	29,650	57,400
<i>Grand Total</i>	46,750	45,650	92,400

## Attachment 1.2

Financial Sector Modernization Program  
 Illustrative Financial Plan  
 GOE Contribution (L.E. 000 )

Component Name	In-Kind Contribution	FT-800*	Total GOE Contribution
<i>Financial Services Project (FSP)</i>			
1. TA/Commodities/Training	5,000	1,000	6,000
2. Project Management	0	500	500
3. Audit and Evaluation	0	0	
<i>Sub-Total</i>	5,000	1,500	6,500
<i>Competitive Environment for Investment (CEI)</i>			
1. TA/Commodities/Training	5,000	1,200	6,200
2. Management Coordination Unit		100	100
3. Activities Initiated under PFC			
4. Audit and Evaluation			
<i>Sub-Total</i>	5,000	1,300	6,300
<i>Grand-Total</i>	10,000	2,800	12,800

\* The A.R.E. contribution from the FT-800 account represents payment for the employer's share of social insurance and airfare tickets.